

Message Text

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E.O. 11652: XGDS-1

TAGS: ENRG, EFIN, UK

SUBJECT: NORTH SEA OIL

REF: LONDON 843

1. CHARGE AND ECONCOMMIN REVIEWED STATUS OF NORTH SEA OIL TAXATION AND PARTICIPATION NEGOTIATIONS WITH HAROLD LEVER JANUARY 24. SUMMARY OF LEVER'S COMMENTS FOLLOWS.
2. HE ACKNOWLEDGES THAT THERE HAS BEEN SOME SLOW DOWN IN DEVELOPMENT AND EXPLORATION DECISIONS, THOUGH HE ATTRIBUTES THIS PARTLY TO NEGOTIATING TACTICS OF OIL COMPANIES.

3. ON PARTICIPATION, FOR WHICH HE IS PRINCIPAL GOVERNMENT NEGOTIATOR, LEVER SAID,

A) HE WILL NOT SEEK OR MAKE SETTLEMENT WITH ANY OIL COMPANY UNTIL PETROLEUM REVENUE TAX IS SETTLED; THEREFORE COMPANY ATTITUDES ON PARTICIPATION CANNOT PREJUDICE THEIR TAX SITUATION;

B) SETTLEMENT THEN WILL BE VOLUNTARY;

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C) HE HAS GIVEN AND MEANS ASSURANCE THAT OIL COM-

PANIES WILL OBTAIN AS GOOD RETURN IF THEY ACCEPT DESIRED
51 PER CENT GOVERNMENT PARTICIPATION AS THEY WOULD OBTAIN
IN ABSENCE OF PARTICIPATION; AND

D) OPERATIONAL CONTROL IS NOT OBJECTIVE OF PARTICI-
PATION AND IF OIL COMPANIES ARE CONCERNED WITH THIS THEY
CAN PROPOSE CONTRACTUAL PROVISIONS TO PRECLUDE CONTROL
ON BASIS OF PARTICIPATION.

4. ON TAX, WHICH IS TREASURY RESPONSIBILITY, HE COULD
ASSURE US OF GOVERNMENT'S WISH TO BE FAIR AND UNDER-
STANDING THAT INCENTIVES MUST BE KEPT TO ENCOURAGE
DEVELOPMENT.

5. OVERALL GOVERNMENT OBJECTIVES, LEVER SAID, ARE TO
REALIZE FAIR SHARE OF INCOME FROM NORTH SEA AND TO
CONTROL 51 PER CENT OF OIL. HE ACKNOWLEDGES THAT BOTH
THESE OBJECTIVES COULD BE ACHIEVED WITHOUT PARTICIPATION,
WHICH, HOWEVER, MUST BE SOUGHT BECAUSE IT IS IN THE
PARTY MANIFESTO. HE WOULD LIKE TO SATISFY OIL COMPANIES
THAT GOVERNMENT HAS NO MORE FAR-REACHING AIMS AND TO
CONVINCE THEM, AS, IN HIS JUDGMENT. IS TRUE, THAT, WHILE
NO ONE CAN PREDICT OR CONTROL THE FUTURE, THEY ARE
LIKELY TO DO BETTER BY LETTING GOVERNMENT CARRY OUT ITS
OBJECTIVE AND SETTLING PARTICIPATION ISSUE WITH HIM ON
VOLUNTARY BASIS THAN WAITING TO SEE WHAT GOVERNMENT WILL
DECIDE TO DO IF THEY DO NOT.

6. HE EXPECTS TO MEET WITH SOME OF OIL COMPANY HEADS IN
NEW YORK AFTER WILSON MEETING IN WASHINGTON.

7. COMMENT: THOUGH WE TAKE LEVER AT HIS WORD REGARDING
PRESENT INTENT OF HMG AND OF COURSE AGREE THAT THE FUTURE
CANNOT BE CONTROLLED, WE CONTINUE TO BE CONCERNED WITH
ADVERSE EFFECTS ON DEVELOPMENT OF UNCERTAINTIES INVOLVED
IN PRESENT POLICIES AS WELL AS NECESSITY FOR ADEQUATE
RATES OF RETURN.

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